

**MINUTES OF FEBRUARY 11, 2016 RETIREMENT BOARD
CITY OF ALEXANDRIA
SUPPLEMENTAL RETIREMENT PLAN
DUE DILIGENCE MEETING**

PRESENT:

<u>Members</u>	<u>Others</u>
Shane Cochran, ^{1, 3} Chairman (General Schedule)	Barry Bryant, Dahab Associates
Charles Curia (Medic, Alternate)	Bryan Capelli, Retirement Specialist
James Davis (Management, Alternate)	Kadira Coley, Retirement Administrator
Robert Gilmore ^{1,3} (Deputy Sheriff)	Patrick Evans, Fire & Police Board
Jean Kelleher ^{1,3} (Management)	Arthur Lynch, Retirement Specialist
Marietta Robinson (General Schedule)	Damon Ficklin, Polen
Laura Triggs, ^{2,3} Secretary (Management)	Jim Haymes, Polen
Lillian Vagnoni (General Schedule, Alternate)	Shirl Mammarella, Fire & Police Board
Christina Zechman Brown (Management)	Ed Milner, Fire & Police Board
	Rick Muse, Fire & Police Board
	Al Tierney, Fire & Police Board
	Rich Tobin, City Resident
	Sergey Zelensky, Retirement Specialist

Absent:

Jack Browand ² (Management)
Brenda D'Sylva ³ (General Schedule, Alternate)
Nancy McFadden (Medic)
Valarie Wright (Deputy Sheriff, Alternate)

¹Purchase of Service Credit Committee

²Technical Corrections and Plan Document Review Committee

³Vendor & Service Provider

CALL TO ORDER

The meeting was called to order at 8:38 AM on Thursday, February 11, 2016.

MEETING RECORD

Ms. Triggs made a motion to:

Approve the January 6, 2016 minutes.

Mr. Davis seconded the motion. The motion was unanimously approved (7 – 0).

FINANCIAL REVIEW

Dahab distributed their quarterly report booklet. Mr. Bryant noted the following items:

- 4th quarter 2015 was “ok”; 1st quarter 2015 has potential to be one of the worst quarters on record.

Ms. Kelleher arrived at 8:40 AM.

Economy, measured by GDP was thought to grow at 2%, but came out at a disappointing 0.7%. There was a lot of media focus on negatives.

Ms. Robinson arrived at 8:43 AM.

Composite returns were 3.4% for the quarter. Fund gained 1.0% for the year but in ended 17th percentile. The fund slightly outperformed its shadow index for the quarter and the year. (Note, the composite does not include some private equity and timber returns)

Investment Manager Discussions

Polen

Polen had a great year, ended with returns 3times above the index.

NewSouth (Fire & Police only)

NewSouth - net of fees returns were well below the index

- Historical numbers have been weak
- Hold large cash balances. Currently their model portfolio has 21% cash, Alexandria is capped at 10%
- Mr. Bryant noted that the Board can direct them to invest the cash holdings, either over other investments or in a benchmark
- Mr. Bryant recommended letting the money remain in cash for the remainder of the quarter (quarters like the first quarter 2016 is why NewSouth retains so much cash)
- Mr. Tierney noted that he was disappointed with their performance
- Mr. Bryant reminded trustees that he recommends reviewing a manager over a full market cycle, up and down market. To do so he recommends looking at a period since 2007

Mr. Bryant recommended bringing NewSouth in for the May meeting and pairing them with Champlain. He recommended Johnston and Brandes for another quarterly meeting in 2016.

PRISA

PRISA – changed fee structure

- PRISA's intention with the new fee structure is to simplify fee structure and raise fees. Had 3-types of fees with a fee cap. New system will have one amount for assets and cash up to 5%. New fee will be 100 bps. Fairly standard in the industry.

Mr. Milner arrived at 9:05 AM.

Brandes

- Aggressive value investor – “buy things that cheap”
- When markets recover those stocks/portfolio will recover and make money back

Glovista

- Invest based on economic policy and banking policy

Board members expressed interest in seeing long term numbers. Many of our managers were hired after 2008. Mr. Bryant cautioned that long term numbers will potentially say we should stay the course with managers.

LARGE CAP GROWTH

Polen, Jim Haymes & Damon Ficklin began at 9:35AM

- Mission statement – firm focus on preservation & protection primary and secondary on growth and enabling the future. Define risk as the permanent loss of capital – attempt to avoid risk.
- Provided a brief overview of the firm. Polen noted that they will be adding a female to the team in July.
- What differentiates Polen
 - High active share (concentration) 20 high quality companies
 - Believe concentration reduces risk
 - Downside capture numbers are a focus
 - Average holding period is 5 years
 - Take long term view – will not raise cash because of market predictions
 - Investment criteria seeks to isolate best companies – high ROE
 - Growing better than average; High/improving margins; Little debt and/or leverage
- Discussed portfolio characteristics and construction.
 - City of Alexandria account performance - ~16% in 2015 vs benchmark at 5.6%
 - Polen noted that as of January 2016 the portfolio is down 4% for quarter versus the benchmark which is down 5.6%.

A trustee asked what the fund did to increase returns. Polen replied that they changed nothing. Rather they stayed the course and the markets did what they did.

Polen's average turnover is 25% per year. Some adding and some is reweighting. Polen added 2 companies in 2015.

- Polen reviewed their detractors and contributions for the year and brief walked through their attribution analysis. Polen demonstrated their excess returns over rolling period – discussed periods of underperformance.
- Investment process - starts with 1,000 companies and use metrics to narrow group. Narrow to 200 then eliminate certain sectors. Exclude anything with a competitive sustainable advantage.
 - Maintain a constraint on cash – average 2 or 3% but could go up to 10%

A trustee asked if the investment decisions are synchronized. Polen noted that they make isolated decisions on buying and selling

Polen left at 10:27 AM.

Socially Responsible Investing (SRI)

The Board continued its discussion on socially responsible investing. The Board reiterated that at January's meeting they had decided that they were not interested in pursuing SRI. Discussions continued about the board's fiduciary responsibility and how that links not only to money but also social responsibility.

Mr. Bryant noted that divesting is not a responsible decision because the decision of our fund does not hurt the company or industry. Instead divesting limits your investing universe and value seekers are waiting to take up the opportunity to find a deal. Mr. Bryant noted that one option is to craft a policy and to hire a proxy firm to vote your proxies. This option would cost money and getting the policy together could be difficult.

Mr. Bryant recommended asking a question about sustainability in future RFPs. Thus the Board can confidentially say it considers sustainability in every decision.

Mr. Davis made a motion to:

Include a question on sustainability in RFP and in discussions with managers.

Ms. Triggs seconded the motion.

DISCUSSION:

- Consider sustainability in all decision for supplemental board
- Discussion used as a catch all term for all subcategories discussed
- Question may not apply to all managers

The motion was unanimously approved (8 – 0).

ADMINISTRATOR’S REPORTS

Regular Investment Reports

Staff recommended rebalancing to the target allocations.

Mr. Gilmore made a motion to:

Rebalance the fund to the target allocations.

Mr. Curia seconded the motion.

Discussion:

Staff noted this is a one-time request and they will use their best judgment when rebalancing to simplify the process and minimize transaction costs.

The motion was unanimously approved (8 – 0).

Cash Flows Reports

Reports are included in the Board Packet. (Hamilton Lane, Landmark, PRISA, & Molpus)

Other Items

Amortization Periods

Staff presented a brief introduction of amortization periods used in the actuarial valuation reports. Cheiron provided screen captures from their P-scan model to demonstrate the need for the change to layered amortization from the current fixed amortization period.

Ms. Triggs made a motion to:

Accept the actuary’s recommended change to the layered amortization period.

Mr. Curia seconded the motion.

Discussion:

Trustees expressed concern about communicating this change to participants given the complexity of the pending sharing mechanism.

The motion was unanimously approved (8 – 0).

COMMITTEE REPORTS

Technical Corrections and Plan Document Review Committee

No report was given.

Vendor & Service Provider Review Committee

No report was given.

OLD BUSINESS

None.

NEW BUSINESS

None.

NEXT MEETINGS

1. Wednesday – March 2nd at 8:30 AM, Sister Cities 1101, Interim Meeting
2. Wednesday – April 6th at 8:30 AM, Sister Cities 1101, Interim Meeting
3. Thursday – May 12th at 8:30 AM, Sister Cities 1101, Due Diligence Meeting

ADJOURNMENT

The meeting adjourned at 11:41 AM.

HANDOUTS

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting [1(a)]
Monthly Investment & Rebalancing Report [5(a)(i)]
Private Equity Cash Flow Report [5(a)(iii)]
Real Estate Cash Flow Report [5(a)(iv)]
Timber Cash Flow Report [5(a)(v)]

Distributed to Board members at the meeting:

- Dahab Performance Review December 2015 (Specific to your plan)
- Dahab's Deferred Compensation, Defined Contribution & ROTH IRA Performance Review
- Polen Presentation Booklet
- Cheiron's Amortization Layering examples